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Essentials of E-Commerce

Franchise Business Network
October 23, 2001
White Plains, New York

Moments in History



"What has G-d wrought"

Moments in History



Telegraph

Samuel Morse to Alfred Lewis

May 24, 1844

Moments in History



"Watson, come here I want to see you"

Moments in History



Telephone

Alexander Graham Bell to Thomas A
Watson

March 10, 1876

Moments in History



"Log..."

then

"Lgo"

Moments in History



Arpanet

Advanced Research Projects Agency

U.C.L.A. to Stanford Research Institute

October 1969

They tried to send Login but it crashed the system

Slow Adoption

- October 1969 - Two computers
- December 1969 - Four computers
- 1971 - Twenty-three computers
- 1971 - Developed TIP to handle 63 computers
- 1972 - Developed File Transfer Protocol (FTP) - standard for file transfer
- 1972 - @ symbol created - within a year 75% of traffic on Arpanet was email
- 1984 - One Thousand Computers

Development

- Fear of sharing limited computing resources slowed development
- 1991 - URL - Uniform Resource Locator
 - www.msaworldwide.com - describes server location
- 1991 - HTTP - Hypertext Transfer Protocol
 - Tells the server what to send so you can view web sites
- 1991 - HTML - Hypertext Markup Language
 - Uses tags to structure text into headings, paragraphs, lists, links

Arpanet ≠ W.W.W

- No picture interfaces
- No domain names
- No search engines
- No meta tags
- No email initially

Important Innovations

- Telephone - a string of numbers
- Arpanet - domain names + dotcom, dotnet, dotorg, dotgov

Enabled the use of search engines to obtain information on web

Important Innovations

- Telephone - hub and spoke used to route calls
- Arpanet - redundant paths

Meant to improve network integrity in case of military attack. Enabled flexible development of WWW.

Important Innovations




1993 - Mosaic

First browser developed by National
Center for Supercomputing Applications

Basis for Netscape



*We're eight years into the
Internet Revolution*




*Total retail sales in the United States
were estimated at \$3.2 trillion in 2000*

Commerce Department

Regardless of whose numbers you believe, the growth in e-commerce sales has been impressive

	Department of Commerce	eMarketer Report
1998	\$ 7.7 billion	N/A
1999	\$17.3 billion	\$30.1 billion
2000	\$25.8 billion	\$59.7 billion
Growth 99/00	49%	98%



While only .8% of total retail sales for 2000, for the first time, e-commerce sales were over 1% of total sales in the 4th quarter of 2000

Commerce Department

On line potential



"60 percent of U.S. on-line consumers made at least one purchase on the Web for the last 10 consecutive quarters"

Greenfield Online

On line potential



73 percent of women shop online as
compared to 71 percent of men

On line potential



E-commerce buyers are in our strike zone

“Those with household incomes of \$50,000 or more are likely to purchase on line (81 percent) than consumers with household incomes under \$50,000 (64 percent)”

Greenfield Online



However, over 60% of all online transactions are never completed

Gartner, Inc.

People are browsing - they're still not shopping

The risk of poor on-line customer service to the brand is high



“Poor online customer service from a clicks and mortar retailer will drive 70 percent of U.S. on line buyers to spend less at the merchants offline store”

Jupiter Media Metrix

The rules of e-commerce



- The first rule of e-commerce is that there is a significant benefit for brands that can effectively link their on-line presence with their off-line locations

It's about the consumer



- 83 percent of online buyers would like to return online purchases at off line locations
- 59 percent of buyers would like to pick up their online purchases at off line locations


Jupiter Media Metrix



*What does this mean for
franchising?*

The underlying lessons for franchising

- The retail and on-line performance and consistency of our Web sites will have a dramatic impact on our traditional methods of distribution.
- How our brands are presented on the internet is therefore no less important than how they are presented in the "real world" of bricks and mortar locations.




E-Commerce risks have heightened an awareness that non franchisors may have a critical advantage over franchise systems when it comes to meeting future competition

Franchising is an inelastic structure

- Non franchised competition - both traditional and e-commerce are unencumbered by individual concerns of encroachment and intra-brand competition
- Non franchised companies have the ability to move quickly in modifying their systems to meet market challenges and opportunities without the encumbrances of protracted contract negotiations

Franchising has inherent limits

- Franchise systems may be limited - by contract and by relationship issues - to the changes they can make to meet new opportunities and challenges and therefore risk becoming uncompetitive
- Traditional franchise systems suffer from a "glass house" syndrome where excluded participants may be distrustful and therefore fearful of change



*For franchisors and franchisees
this may require a rethinking of
the franchise relationship*



Web Site Issues

Forgoing a Web presence

- For franchisors, not having a Web presence that meets consumer needs is not an option - if you want to remain at least viable
 - Non franchise competitors will strip you of market share
 - or
 - Other franchised competitors will strip you of market share

Without any Web presence

- Your franchisees will likely view your system as:
 - Non-competitive
 - Technologically challenged
 - Unresponsive to market change
 - Unresponsive to consumer preferences
 - Unresponsive to its franchisees

The only benefits are short term

- Without a Web presence franchisors have the illusion of protecting their system's information
- The cost of establishing a Web site will be delayed until competitive pressures or franchisee pressure forces you to do so

Therefore, as franchisors we are left with only two real options:



- Allowing franchisees to establish independent Web sites
- Establishing a franchisor Web site with linkage to franchisee Web sites
 - Developed by franchisees
 - Developed by franchisors

Franchisee independent Web sites

- Without controls:
 - Franchisee sites may make it difficult for consumers and potential franchisees to find the franchisor's site on the Web
 - Linkage to franchisee sites will become problematic
 - Linkage from franchisee sites will become problematic
 - Brand message will become diluted

Franchisee independent Web sites

- Without controls:
 - Poor e-commerce activities by franchisees will impact the system's brick and mortar locations
 - Content on franchisee sites will effectively become uncontrollable - cost of policing
 - Trade secrets and copyrighted material could become jeopardized
 - Potential for misuse of franchisor's marks

Franchisee independent Web sites

- Without controls:
 - Sites may contain unexpected links or advertising
 - Competitors
 - Other service providers - i.e. Travelocity
 - Auction sites, discounters, consolidators, competitive Web directories
 - Sites may contain unauthorized Meta Tags
 - Site may contain unexpected and unauthorized product or service extensions

Franchisee independent Web sites

- Without controls:
 - Loss of control on domain name
 - Vicarious or contributory liabilities
 - Privacy issues
 - Security issues
 - in term
 - post term
 - Loss of consumer feedback

Franchisee independent Web sites

- Intrabrand competition:
 - There is a possibility of intrabrand competition should franchisees begin to differentiate their locations from others in the system based upon price or other services.
 - The speed and ease of access to information on the Web makes intrabrand competition a threat to brand integrity

Franchisee independent Web sites

- There is a heightened risk of territorial disputes
 - E-Commerce sales have difficulty distinguishing between borders.

Territorial rights

- If the sale is delivered into another franchisee's territory - is that encroachment if:
 - The sale was made by the franchisee from its location?
 - The franchisee's server was located in franchisee's territory?
 - If the purchaser resided in the franchisee's territory but asked for the merchandise to be shipped to their office outside the territory?

Are territorial rights even possible to manage effectively in the age of e-commerce sales?

Benefits of independent sites

- Other than avoiding the direct costs associated with setting up and maintaining control, there are none
- The downside potential is high

Franchisor Web sites with linkage

- There are two basic methods available:
 - Franchisee developed Web sites based upon policies established by the franchisor
 - Franchisee Web sites developed by the franchisor

Establishing policies

- Establishing policies provides the franchisor with control - but at a price
 - High cost of reviewing and evaluating individual franchisee Web pages
 - Content, format, language, spelling, etc.
 - High cost of monitoring changes - often frequent changes - to franchisee's Web sites
 - Discussions - often negotiations - with franchisees over content

Benefits of policy driven sites

- Allows franchisees maximum flexibility in showcasing their locations
 - Personnel
 - Community involvement
 - Specials
 - Changes to information - telephone, etc.
 - Special circumstances or benefits

Benefits of policy driven sites

- Consumers may frequent sites to see changes and new offerings
- Personalization can add excitement to the site
- The costs (creative and time) of developing the site and its content are borne primarily by franchisees

Risks

- Personalization of the site can conflict with the image of brand consistency and image of a "chain" that most franchisors strive for
- With multiple franchise sites to supervise, the risk of slippage is still high

Franchisee sites published by franchisor

- Franchisor uses a consistent template
 - Franchisees provide information on their location
 - Franchisees provide periodic updates to their information
 - Franchisor publishes and maintains site for each franchisee

Benefits

- Provides the franchisor with the best control over:
 - Format and look of site
 - Content of site
 - Consistency of brand message
 - Potential areas of risk and liability
- Allows franchisee to periodically update information

Benefits

- Consumers have easy access to franchise system information
- Linkage to and from franchisee's sites is uniform and consistent
- Brand message is protected
- Diminishes the risk to franchisees from on line activities of other franchisees
- Cost of policing sites low - although maintenance is high

Benefits

- Trade secrets, copyrighted material and marks are protected
- Intrabrand competition and territorial disputes limited
- Links and advertising banners controlled
- Uniform Meta Tag strategy
- Domain name protected from internal abuse

Benefits

- Limits triggers for vicarious liability enabling franchisor to control privacy and other issues
- Security issues
 - in term
 - post term
- Enables system to benefit from consumer feedback

Risks



- Expensive to set up
- Expensive to maintain
- Slow to modify
- Reduces personalization and local content by franchisee
- Can create some conflict in the relationship

The Internet *What we were promised*



A new Internet economy that would
eliminate business cycles

Unlimited and unbridled economic
growth

The Promise



- Reduction in the three constraints of commerce
 - Time
 - Money
 - Real time interactivity



Time

- Speed of communication
- Reduction in communication barriers
- Speed of data sharing
- Reduction in transaction cycle
- Acceleration of globalization

Money

- Elimination of geographic advantages and boundaries
- Information would result in the commoditization of products and services
- Reduction in the cost of doing business

Real Time Interactivity

- Sharing of data between all levels of distribution channel
 - Reduction in cycle time for replenishment of inventory - just in time
 - Reduction in holding costs for inventory
 - Effective outsourcing and shared enterprises
 - Accelerated feedback throughout distribution cycle

Did it fail to meet its promises



It's a start

The surprise of the Dot Com failures
only showed that we lost sight of
history

Predictable Consolidation

- From 1900 to 1925 there were approximately 3,000 new automobile start ups
- Innovative features were hot - and then gone - many survived in new models
- Today there are fewer than 50 brands and far fewer companies

Other industries follow a similar pattern



- Transportation - railroads, airplanes
- Steel
- Communications - telephone, telegraph, radio, television
- Electricity
- Refrigeration

Phase I failure



There was no failure - there was
innovation that will be used in Phase
II

The current "failure" of the Internet
may appear catastrophic - but only
because we forgot the past

We're in between phases



- Phase I showed us the potential
- Phase II should be the period when promises are kept

Phase I Failure



- Dot Com failures
 - Corporate not necessarily technological
 - Technology looking for a purpose
 - Concepts looking for a buyer

We over promised - under delivered

Business Failure

- We corrupted historic measurements
 - Burn rate replaces return on investment
 - Market share at all cost - core product give away
 - Financial measurement to support illusion of success
 - VC and Wall Street continued flow of capital to prop investments

Business Failure

- Cross marketing and advertising as revenue base instead of sale of products and services - historic norm
- Young - untested management - "business gurus" measured by future instead of present

Lessons from Phase I

- Difficulty transitioning consumer from no-charge to charge for sale of products and services
- Return to financial measurements and realistic management projection
- Internet's value is in supporting established channels - not necessarily best at starting new channels

Lessons from Phase I

- Bankruptcy issues
 - Over leveraged asset less companies
 - Underdeveloped software - availability of former employees for development
 - Privacy rights of consumer information

Asset value may rest with ability to integrate and unitize intellectual property within existing processes

Lessons from Phase I

- We can achieve productivity gains
- Established brands at risk due to incumbent inertia and commodity mindset of consumers
- Geographic boundaries (think encroachment) is an illusion of the past
- Consumers are in control of how they buy - not how companies want them to buy

Lessons from Phase I

- Off line and on line world linked
 - Consumers want seamless purchasing experience
 - Uniform pricing on line and off
 - Ease of return policy and return solution
 - Use of internet for information not necessarily for initial buy
 - Internet useful for replenishment or commodity purchases
 - Internet useful for geographic barrier reduction

Lessons from Phase I

- Information available and abundant but possibly not in useable format
- Information usage limited by last mile bandwidth
- Regulatory environment working in a railroad environment and unprepared for rapidity of necessary change

Phase II



- Not there yet
- September 11th impact is uncertain

Phase II

- Re-working the value chain
- Buying consolidators - B2B - will return to industry/company segmentation - GE accounts for 20% of all consolidator transactions today.

Phase II - For Business

- Supply chain and management measurement/reaction in real time
 - Sales marketing
 - Manufacturing
 - Inventory
 - Human resources
 - Financial
 - Plant and other asset
 - Customer experience enhancement

Phase II - For Consumers

- WWW changes to WW Grid
 - Universal linkage will equal real time availability and usefulness of information
- PDA's
- Cell Phones
- Appliances
- Automobiles
- Wristwatches
- Personal chips
- Purchasing preferences
- Personal marketing
- Anticipated transactions

What's the holdup for Phase II

- Last Mile Bandwidth
 - There is an abundance of bandwidth capacity but it doesn't connect to the user - 87% of homes not connected
 - Government regulation caused the problem
 - Government action will likely be needed to solve the problem

What's the holdup for Phase II

- Limitation on wireless connectivity
 - Dot com information requires huge increases in speed
 - Required radio spectrums controlled by government auctions - limited availability
 - Cost to develop and access

What's the holdup for Phase II

- Available capital
 - Uncertainty following September 11th
 - But:

As Internet companies begin to be measured by historic benchmarks, capital should be drawn back into market

Lessons for franchising



- Inelasticity of franchise relationship
 - Speed of change
 - Innovation
 - Territorial rights

We're using a WWII franchise structure
in the information age

Lessons

- For both franchisors and franchisees
 - Keep the focus on the customer - not the process
 - Understand how the customer wants to shop
 - Understand what information the customer needs

Lessons

- Understand how the competition is delivering or can deliver the same product and service to your customer
- Understand that the inelasticity of franchising makes it potentially less than a competitive business model against non franchised competition
- Understand that consistency has historically been the backbone of franchising success

Lessons



- Understand that E-Commerce and the World Wide Web are simply a tactic and have not altered any of the other Understandings

It has just accelerated the process

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